AGRICULTURAL OUTLOOK DIGEST

OUTLOOK 73

AOD-189

Approved by the Outlook and Situation Board, June 26, 1973
Economic Research Service U.S. Department of Agriculture

PRICE PRESSURES TO MODERATE

The dual-edged sword of prices may be somewhat blunter in the second half of 1973. Look for Government anti-inflationary moves and rising crop output to take the edge off of the crop prices farmers receive as well as off those they pay for inputs. But prices will be touchy, and subject to developments in weather, fuel supplies, transportation slowdowns, and world demand.

Prices Received

Mid-June prices received by farmers were 38 percent higher than a year before and 72 percent over the 1967 average. Prices may ease some in the second half if the prospective record crops of wheat, feed grains, and soybeans materialize. Although the current price freeze doesn't apply to agricultural commodities until processing occurs, the retail ceilings limit prices at the farm level.

Prices Paid

Prices paid by farmers in mid-June were 16 percent higher than a year before and 46 percent above 1967. (Interest, taxes, and farm wage rates are figured in.) Sharply higher prices paid for feed, seed, and feeder livestock and other purchased inputs have pushed up the prices-paid index this year.

The second half promises some relief, with possible record feed grain and soybean crops to help ease the crunch on feed costs and some expansion in availability of feeder calves. Phase IV controls, now under design, will follow the freeze. And the Administration has proposed regulating agricultural exports to ensure adequate domestic availability of feeds and foods. This. will require new legislation.

Soybean Exports Limited

The Government temporarily halted exports of soybeans, cottonseed, and their meals and oils on June 27, to head off total usage of protein meals prior to the fall harvests. The total embargo was then eased to allow limited exports, divided up among shippers.

It's hoped the move may provide some assurance to livestock producers seeking more protein feed at more reasonable prices. Authority for the oilseed action comes from the 1969 Export Administration Act, which is geared to just such a case of scarce domestic supplies vacuumed into strong export markets.

NEW HEIGHTS FOR INCOME

Farm income may soar to over $22 billion this year, far above 1972's peak level of $19.2 billion.

The gain derives from farm prices averaging around a fifth higher than last year. Also, record volume of farm output is possible. This potent combination may yield as much as $73 billion in cash receipts, a remarkable level compared with last year's record $58½ billion. Direct Government payments to farmers will drop from $4 billion probably to less than $3 billion. Adding nonmoney income, gross farm income could be close to $80 billion.

Farmers are also paying higher prices. This factor, multiplied by the quantity of inputs required to produce the larger volume of crops being grown, is boosting farm costs, but not as much as gross income is rising.

FUEL TIGHT NOW . . .

Fuel companies are voluntarily allocating supplies for farming to combat farm fuel shortages which have been identified in a number of States. So far, fuel shortages have not significantly affected crop plantings,

Fuel for harvesting small grains is currently touch and go. This harvest may burn up around 250 million gallons of gasoline, much more than last year, thanks to larger acreage.

. . . AND LATER

Getting enough fuel for harvesting and drying crops this fall will pose further problems. About 336 million gallons of fuel, mainly gasoline, will be needed to harvest the larger corn and soybean crops and haul them to storage. If the corn crop doesn't get soaked again this year, drying may require a little less than last year—about 645 million gallons of fuel, mainly LP gas. With a big tobacco crop, curing may require 138 million gallons of LP, plus a substantial amount of fuel oil.

Corn drying may provide the real test. It hits when homeowners are turning on their LP gas for heat. Fuel can be saved when possible by storing high-moisture corn in airtight silos, by delaying harvest until moisture content drops, and by drying with unheated air.

MORE FRUIT FOR SUMMER

Crops of early noncitrus fruits will total around a tenth larger than last year, boosting summer fruit supplies.

Output of sweet cherries and West Coast Bartlett pears is forecast sharply larger, California prune plum output is double 1972's, and the early indications show a large Washington apple crop and much larger California grape harvest. A sharply larger apricot crop will be canned, restoring stocks to somewhat more adequate levels. Fresh strawberry, nectarine, and peach crops will be moderate.

The U.S. peach crop may be 7 percent larger than last year, excluding California clings, but a fifth smaller than 1971's average-size crop. The California cling peach crop is 9 percent larger than a year earlier and 5 percent over 1971.

Banana imports during January-April were the largest in recent years. Annual per capita consumption—18 pounds—leads all other noncitrus fruits.

PROTEIN SUPPLIES IN A BIND

Protein feed ingredient prices will remain at high levels and in tight supply at least until October. Livestock producers, especially poultry men, would be caught in a real crunch if soybean meal ran out before 1973 beans could be crushed. On June 27, the Government moved to restrict oilseed and meal exports.

A June 1 Census Bureau survey showed stocks of soybeans at mills totaling 89 million bushels, a tenth less than a year before. However, much less beans than last summer remain in other locations for the mills to purchase once these stocks are used. With a barebones carryover September 1, any delay in harvest would be a hardship.

Cottonseed meal supplies currently exceed year-ago levels, and cottonseed meal is expected to be locally available most of the summer, but at relatively high prices.

Supplies of other oilseed meals such as peanut and linseed are all expected to remain high-priced and hard to get.

Animal-origin protein ingredients will also be available in lesser volumes this summer. Fishmeal supplies will remain very tight. Peru intends to resume anchovy fishing next October. Meanwhile, we'll have to depend for meal largely on the domestic fish catch. Supplies of meat scrap meals, poultry byproduct meals, and feather meals will also be below a year ago. Furthermore, feed manufacturers will have to compete vigorously against pet food makers and export interests for certain types of these items.

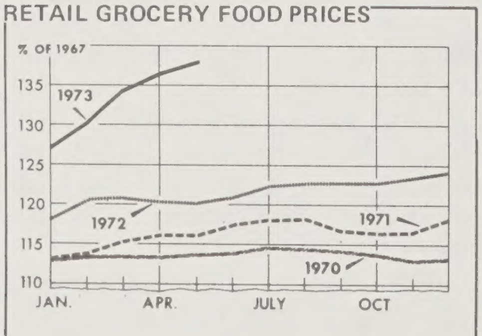
Supplies of other protein feeds such as distillers' and brewers' grains, gluten, and dairy byproducts are expected to be about the same to slightly larger than a year ago.

Nonprotein nitrogen supplies such as urea should be adequate to meet the heavy demand for ruminant feeding, and prices are likely to hold near current levels.

FOOD PRICE RISES TO MODERATE

Rapidly rising food prices were an important reason for clamping the ceilings on all retail prices on June 13. With disrupted livestock marketings and smaller domestic availability of food than a year earlier, both chafing against expanded consumer spending, agricultural commodity prices soared in the first half of 1973, and so did food prices. For the first 6 months, retail food prices will probably average around a tenth higher than 1 year before.

RETAIL GROCERY FOOD PRICES



Looking to the second half, the imposition of price ceilings on all retail and wholesale prices will prevent July and August food prices from exceeding early-June levels. Prices during late summer and fall will reflect stabilization programs adopted under Phase IV, the outcome of the 1973 harvests, and the relationships among supplies of and demands for agricultural products.

In the absence of price ceilings, retail food prices would probably have advanced further over the next few months. But with the ceilings, and if prices remain near early-June levels for the rest of the year, the rise in retail prices will probably average 12 percent over 1972's level.

HIGH FOOD PRICES: WORLD PROBLEM

The food price problem that hit much of the world last year has not yet ended—as evidenced by further gains in national price indexes in developed countries through March 1973.

With farmers worldwide striving for at least a partial recovery this year from 1972's lower output levels, the worst may be over. But the price situation still hinges on weather.

Through March 1973, major developed countries continued to show unusually large increases in their price indices. For many European nations, this trend started in early 1972, while for the United States, acceleration started in early 1973. In the end, however, none of the nations on which data were compiled managed to keep retail food price increases below 8 percent in the past year.

March 1973 food prices

Country	Food prices	Increase from a year earlier
	1963=100	*Percent*
United States	148	10
Canada	145	11
Japan	181	10
United Kingdom ..	179	13
Denmark	197	15
Germany	133	8
Italy	148	12
Beligium	155	9
France	121	8

HOGS FEEL PINCH

As 1973 progresses, evidence of the backlash from high feed prices, bad weather, and other livestock production roadblocks continues to mount. Latest case is in the hog business, where an expected upswing in the hog production cycle is not materializing.

Six months ago, farmers indicated plans for a 6-percent hike in the spring 1973 pig crop, which would have spelled a moderate increase in second-half slaughter rates compared with 1972. Then came bad weather, rising feed grain prices, the consumer meat boycott, and establishment of meat price ceilings.

Survey Surprises

The June 1 hogs and pigs survey indicates the fate of the planned increase. Farmers reported 1 percent fewer market hogs and pigs on hand than a year before. The December 1972-May 1973 pig crop totaled 46.8 million, down 2 percent. Furthermore, producers currently plan no increase in sows farrowing during the second half of this year from the nearly 6 million farrowed in the second half of 1972.

Thus, hog slaughter for the next 12 months could about match the year-earlier pace. Prices of barrows and gilts at 7 markets were about $39 per hundredweight in late June. With seasonally low slaughter ahead, prices should hold fairly steady. And prices for the July-December stretch will likely average well above the 1972 level of $29.

Red Meat Supplies Steady

With the current perspective on the hog situation, it now looks like total red meat supplies—beef, veal, pork, lamb, and mutton—for the second half of 1973 may not be much different from a year earlier.

COSTS "CEILING" POULTRY OUTPUT

Broiler, turkey, and egg output will lag year-earlier levels this summer and recent spiraling feed costs and price regulations may keep output reduced next fall.

Egg output will continue to recover but may not match year-earlier levels this year. Production through May this year was down 6 percent, and layer numbers on June 1 were down 4 percent from 1972 and the lowest for this date since the early 1960's. But the rate of lay rose 1 percent. High feed costs and declining profitability for eggs probably will check any planned expansion in egg chick placements this summer. Recent hatchery activity may provide a few more pullets for fall flock replacements.

Egg prices are at their highest levels since the mid-1950's. Reduced supplies and strong breaker activity will hold shell egg prices at ceiling levels in coming months.

Broiler meat output may gain seasonally into midsummer but will continue below year-earlier levels. Federally inspected broiler marketings were down about 2 percent in January-April. Broiler production is expected to gain relative to 1972 later this year and may exceed last year's level this fall. However, the recent high costs for feed grains and protein feeds may cause producers to cut back rather than expand production.

Wholesale broiler prices have fluctuated between 39 and 45 cents a pound in recent months. High red meat prices, smaller broiler supplies, and larger consumer incomes will keep prices well above 1972 through the balance of 1973.

Turkey output, up a tenth during the first half, is expected to slip below 1972 levels in the summer, and should lag 1972 during most of the rest of this year.

Turkey prices have continued to trend upward in recent weeks despite moderately larger output. New York wholesale prices for 8-16 pound young hens averaged 56.5 cents a pound during May, 21.7 cents above May 1972. Prices are expected to continue strong the balance of 1973.

MILK OUTPUT LAGS

While milk production lags, retail dairy sales rise. Farm and retail prices are up.

Milk output per cow showed no gain in May for the first time since early 1966. The rate of decline in milk cow numbers accelerated to 2 percent in May, the sharpest decline in almost 3 years. With feed expensive and slaughter cow prices high, farmers continue to cull their dairy herds heavily.

With continuing lag in the months ahead, milk output for all of 1973 will likely be more than 1 percent below 1972. Milk-feed price ratios have deteriorated to the lowest levels since mid-1965. Second-half feed prices will probably not decline enough from current high levels to turn milk production around this fall.

Farm milk prices at midyear were up 10 percent from a year ago, and are likely to continue high. Manufacturing milk prices in the second quarter were 30 cents above the $5.29-per-100-pound support level.

With cheese sales up 10 percent in April and May, January-May commercial disappearance of milk in all dairy products (milk equivalent, fat solids basis) rose some 2½ percent from a year earlier. Volume of butter, frozen desserts, and fluid milk was larger. Dairy product sales should continue above a year earlier during the rest of 1973, but likely by less than 1972's 3½-percent gain.

Retail prices of milk and dairy products jumped over 1 percent from April to May, but will be held at early June levels by the price ceilings. After the price freeze, retail prices will depend largely on the type of Phase IV program adopted. However, the tight supply-demand situation expected this fall and winter will put upward pressure on prices.

STEADY TOBACCO SUPPLIES

With a smaller carryover, but larger anticipated total crop, 1973/74 combined supplies of flue-cured and burley tobaccos are likely to remain at the current level.

The combined flue-cured and burley carryover will drop about 4 percent under last year's 3.15 billion pounds to the lowest level since 1951.

Considering past experience, and if fuel shortages can be avoided, the March 1 projection of a 12-percent larger flue-cured crop still seems reasonable. The 1973 crop would total around 1.14 billion pounds.

Burley tobacco marketings are governed by poundage quotas, which are 5 percent lower this season. Despite the lower quotas and the wet weather that has delayed setting, projected marketings should come near the 1972 level of 590 million pounds.

In the 10 months ending this April, cigarette use increased 2½ percent over a year earlier, but cigar and smoking tobacco use lagged. Unmanufactured tobacco exports have been moving briskly, and are likely to top the 525 million pounds of 1971/72 by 3-4 percent this fiscal year. However, with rising U.S. support prices and bigger Canadian output, exports will do well to match the pace of June-December 1972.

LAND VALUES SOAR

The price of land rose sharply in the past year. For the year ended March 1, the average value of an acre sold increased 13 percent.

With an expanding money supply in the past year, credit was more plentiful and interest rates were stable. Two years of rising farm income with prospects for a third provided inducement to agricultural buyers. Sharp income rises may have facilitated purchases for rural homes and recreation land and boosted demand for new housing and commercial development. More investors may have turned to land recently as a hedge against inflation.

Conditions in the lending market reflect the recent land boom. Farm mortgage loans held by major lenders—life insurance companies, Federal land banks, and the Farmers Home Administration—as of March 31, 1973, totaled substantially larger than a year earlier. Most of the $1.7 billion increase reflected increased lending by the land banks.

The amount of money loaned by life insurance companies during the first quarter of this year was 40 percent higher than a year earlier, while land bank lending was up 75 percent.

Interest rates during the first quarter were a shade lower than a year before. Life insurance companies were charging 8.3 percent, unchanged, while Federal land banks charged 7-7½ percent, down from 7-8 percent in first quarter 1972.

Commitments for new loans by life insurance companies during the first quarter this year were up sharply from a year earlier.

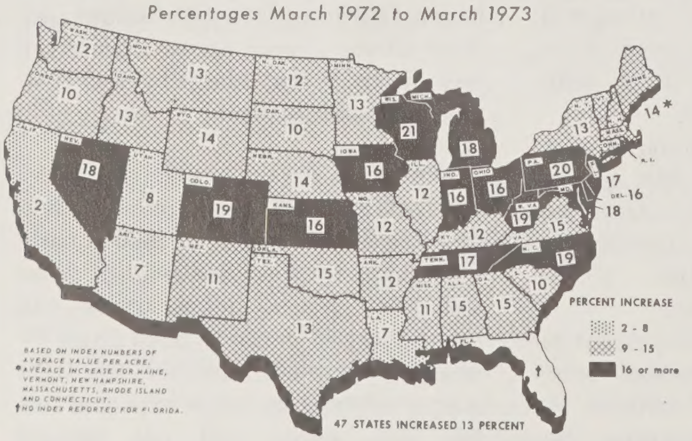
Credit Picture Changing

Those commitments, currently being executed, are a good indicator that heavy lending for farmland transactions is still occurring. However, it's possible that the advance in land values may not continue to be as brisk. The Federal Reserve Board recently cranked up the discount rate to the highest level in years. This will undoubtedly have an impact soon on interest rates for long-term lending. And recent reports of tight money in the housing market may foretell a general tightening of credit availability.

Even with a slower farm real estate market, the pressures for farmland are likely to continue. And the advance in prices over the next several years has a good chance of matching the long-term trend. Over the last 10 years (1963-73), farm real estate value per acre has climbed at a 6.9 percent annual compound rate. Values were up 7 percent or more in 31 States. Rates rose fastest in the Northeast, Southeast, and West, where land is shifting most rapidly from agricultural to other uses.

CHANGE IN AVERAGE VALUE OF FARM REAL ESTATE PER ACRE

Percentages March 1972 to March 1973



AVERAGE COMPOUND RATE OF INCREASE IN FARM REAL ESTATE VALUES PER ACRE 1963 TO 1973